

VZCZCXRO4580
RR RUEHBI RUEHCI RUEHLH RUEHPW
DE RUEHEK #0668/01 1790427

ZNY CCCCC ZZH

R 270427Z JUN 08

FM AMEMBASSY BISHKEK

TO RUEHC/SECSTATE WASHDC 1131

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

RUCNCIS/CIS COLLECTIVE

RUEHBJ/AMEMBASSY BEIJING 2561

RUEHOT/AMEMBASSY OTTAWA 0141

RHEFDIA/DIA WASHDC

RUEKJCS/OSD WASHDC

RUEAIIA/CIA WASHDC

RHEHNSC/NSC WASHDC

RUEKJCS/SECDEF WASHDC

RUEKJCS/Joint STAFF WASHDC

RUEHGV/USMISSION GENEVA 0947

RUEHVEN/USMISSION USOSCE 2956

RUCNDT/USMISSION USUN NEW YORK 2341

RUEHNO/USMISSION USNATO BRUSSELS BE

RUEHBS/USEU BRUSSELS

RUEHLMC/MILLENNIUM CHALLENGE CORP

RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL

C O N F I D E N T I A L SECTION 01 OF 02 BISHKEK 000668

SIPDIS

DEPT FOR SCA/CEN (GEHRENBECK)

E.O. 12958: DECL: 06/26/2018

TAGS: EMIN ECON PREL KG

SUBJECT: KYRGYZ BUSINESS CLIMATE CHALLENGES GOLD AND STEEL
INVESTORS

REF: A. BISHKEK 588

1B. BISHKEK 593

1C. 07 BISHKEK 316

1D. 07 BISHKEK 155

BISHKEK 00000668 001.2 OF 002

Classified By: Acting Deputy Chief of Mission Robert Burgess, Reason 1.
4 (b) and (d).

11. (C) Summary: The Canadian operators of the Kumtor gold mine continue to face serious difficulties. Negotiations with the government over a new framework agreement are stalled (Ref A), and a Kyrgyz court entered a \$2.6 million judgment against Kumtor Operating Company (KOC) for a land tax levy that is the subject of international arbitration. Despite government-orchestrated pressure against the largest foreign investor in Kyrgyzstan (KOC), other foreign investors are still prospecting for deals here. For example, we have seen Indian firms scouting opportunities for steel mills, and one Indian firm, Abhijeet, is committing itself to a \$500 million investment. However, Abhijeet's concerns about electricity and transportation challenges, not to mention corruption, may render such private sector investment unviable. Continued pressure may eventually force Kumtor to adopt a more conciliatory negotiating stance in the short term, but at the longer-term expense of limiting sustainable private sector investment in Kyrgyzstan. End summary.

Continued Impasse over Kumtor Project

12. (C) Amidst no apparent progress towards a renegotiated agreement between the Kyrgyz government and the Canadian parent companies of the Kumtor gold mining operation (reftel A), a Kyrgyz court ordered that approximately \$2.6 million of the Kumtor operation's bank accounts be "frozen." A Kumtor Operating Company (KOC) official told Embassy June 24 that his staff picked up a copy of the court's "determination," but that KOC's local bank had not taken any action towards KOC's accounts as the bank had not yet received any court

decision. The KOC official viewed the court action, taken at the behest of Deputy Speaker of Parliament Kubanychbek Isabekov, largely as a public relations ploy.

¶13. (C) The KOC official told Embassy that KOC plans to appeal the court's "determination," and confirmed that the amount corresponded roughly to a disputed recalculation of a land tax assessment for the Kumtor site. KOC contends that the mining operation is exempt from the tax assessment, and has restarted arbitration proceedings to contest the land tax. According to the official, the June 23 preparatory arbitration meeting was moved to London, where the Kyrgyz side has retained legal counsel. There has been no public comment about the scheduled meeting.

Indians Scout Steel Prospects

¶14. (C) Despite the ongoing impasse over Kumtor and growing concerns about Kyrgyz electricity supplies (reftel B), some Indian firms have expressed interest in building ferroalloy and/or steel facilities in Kyrgyzstan. Kyrgyz officials have long sought major industrial projects, and they may have secured a significant investment from Indian firm Abhijeet. An Abhijeet executive told Embassy June 20 that his firm would be signing, in the coming days, an agreement with the Kyrgyz government regarding construction of a \$500 million steel mill. The agreement requires that the Indian firm make a substantial deposit after signing the deal.

¶15. (C) Confirming that production would be 100% exported, the Abhijeet executive noted repeated difficulties communicating with Moscow-based authorities regarding rail

BISHKEK 00000668 002.2 OF 002

cars. (Note: Another expatriate businessman, who wants to export Kyrgyz marble, has also advised Embassy of rail car complications. Embassy understands that many freight rail cars used in Kyrgyzstan are managed by Moscow. End note.) When questioned about guaranteed electricity supplies, the executive said that Kyrgyz officials indicated supplies might be limited for a couple of months and seemed receptive to the construction a coal-fired electricity plant alongside the steel mill. The executive also admitted that his company had sweetened the deal for certain Kyrgyz officials and three unnamed opposition politicians.

¶16. (SBU) Embassy has received separate confirmation of previous reports that a team representing India's Mittal Group traveled to Bishkek by corporate jet this spring to scout potential industrial sites in southern Kyrgyzstan.

Comment

¶17. (C) While Prime Minister Chudinov has recently both publicly praised Kumtor mining operations and privately criticized KOC's Canadian parents, other public Kyrgyz institutions seem less conflicted. Financial, tax and audit authorities continue to peruse KOC's files. The KOC official told Embassy that an investigative body request for KOC documentation to be translated from English to Russian was not sent to KOC, but to Deputy Speaker Isabekov. Isabekov continues to maintain his high profile in the Kyrgyz media and has secured favorable court decisions, often without KOC's presence. While KOC continues its main mining operations, the undetermined pace of arbitration regarding the \$2.6 million levy, the collapsing value of KOC's parent companies' stocks, and growing Kyrgyz investigative activity into KOC will likely increase the pressure for a more conciliatory Canadian negotiating stance.

¶18. (C) Although some senior Kyrgyz officials acknowledge that the Kumtor impasse is clouding the Kyrgyz investment climate, these same officials are still courting investors attracted by Kyrgyzstan's mineral resources. Indian firms

are the latest to be prospecting here, but they will likely encounter the same challenges other potential private sector investors have faced here -- electricity shortfalls, limited transportation corridors, and corruption. Enthusiasm for state-financed projects may help fill the investment void, but sustained private sector investment will continue to be stymied by the clouded Kyrgyz investment climate.

YOVANOVITCH